



Public-Private Partnership Stories

Kiribati: Otintaai Hotel



The Republic of Kiribati, an island nation located between Hawaii and Fiji in the Pacific Ocean, has long depended on the public sector and foreign aid. Its government would like to change this by reforming state-owned enterprises, developing its infrastructure, and laying the foundation for growth in the private sector. As a part of this reform effort, the government turned to IFC to find a private sector partner to rehabilitate and operate the state-owned Otintaai Hotel, which had long been a drain on the state budget. As one of Kiribati's few hotels, the project is critical to expanding the provision of suitable accommodation to visitors.

Royal Crown Enterprises Limited, a local firm, won the tender in Kiribati's first PPP in the tourism sector. Under the 25-year concession, Royal Crown will renovate and manage the 40-room hotel, providing accommodations meeting the equivalent of a three-star rating by Australia's official accommodation accreditation system. It is estimated that \$2.25 million in private sector investment will be mobilized in the first two years. The concession was granted in September 2013.

This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

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The Otintaai Hotel transaction is the first PPP in Kiribati's tourism sector. It will serve as a model for the government's reform efforts for state-owned enterprises.

BACKGROUND

The Republic of Kiribati—with 33 coral islands and just over 100,000 people—straddles the equator 4,000 kilometers south of Hawaii. For the adventure tourist, it offers coral beaches, stunning lagoons, world-class fishing, and relics from the Second World War. But tourism in Kiribati (pronounced Kiribus in the local language, Gilbertese) is still in a very early stage of development because of its isolation and poorly-developed infrastructure. Its government, however, is reform-minded, and has been working with international development agencies to improve infrastructure services such as water and sanitation, roads, and airports while also increasing private-sector involvement in state-owned enterprises.

A shortage of accommodation complicates these efforts: visiting the country is difficult for tourists, businesses, and development agencies. Kiribati's capital, Tarawa, has only a handful of small hotels and guest houses, the largest one being the state-owned Otintaa Hotel near the international airport. Visitors describe this 40-room facility as “in desperate need of modernization and repairs” with poor, though friendly, service. Kiribati's government, recognizing that it had neither the resources nor the knowledge to bring the hotel to international standards, turned to IFC to help find a suitable private operator to invest in, develop, and operate the hotel.

IFC'S ROLE

IFC was retained by the Government of Kiribati as the lead advisor for the Otintaa Hotel PPP transaction. IFC conducted due diligence by studying the technical, legal, and market conditions facing the tourism sector in Kiribati and assessing the facilities and services of the hotel. IFC concluded that there was sufficient demand by travelers, visiting dignitaries, government, aid agencies, and businesses to sustain the hotel, but that it would need a major upgrade of its facilities, experienced management, and much improved services to be successful. A significant amount of capital expenditure would be necessary to bring the hotel up to international standards.

IFC analyzed the pros and cons of different transaction structures in light of Kiribati's unique economic environment, including outright sale, joint venture and franchise concession, and other options. Based on the land tenure system and market feedback, IFC recommended the concession model, which was endorsed by the government. IFC then provided assistance to the government to implement the transaction. IFC drafted legal documents, managed consultations with investors, and provided advice on executing the tender and evaluating bids.

TRANSACTION STRUCTURE

IFC's assessment showed that the Otintaa Hotel was best positioned as a business hotel with the potential for serving as a gateway hotel for outer island tourism. IFC recommended a 25-

year concession, since this would minimize market or operational risk to the government while providing the state budget with concession fees. It also addressed the needs of potential investors and helped avoid the same difficulties that were faced by the government during an earlier attempt to privatize the hotel in the 1990s.

The government accepted IFC's recommendation for a 25-year concession, with the private operator bearing all the market and operational risk. The government will manage leasing arrangements with multiple landholders and agreed to grant tax incentives to encourage tourism investment.

BIDDING

Five potential investors expressed interest in the project. Of these, a local firm, Royal Crown Enterprises Limited, won the tender. The government granted the concession in September 2013.

EXPECTED POST-TENDER RESULTS

- The Otintaa Hotel transaction is the first PPP in Kiribati's tourism sector. It will serve as a model for the government's reform efforts for state-owned enterprises.
- Following the redevelopment, it is expected that the hotel will need at least 40 full time staff, compared with the existing 22. Tarawa's citizens will benefit from increased tourism-related activities and the income of a well-run hotel.
- It is estimated that \$2.25 million in private sector investment will be mobilized in the first two years.
- The hotel is currently run at a loss to the government. Under the new model, when the hotel is fully operational, the government will realize fiscal benefits in the form of taxes and concession fees that could total up to \$100,000 per annum.

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